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‘Marx’ or the Market? Intra-party Power and Social Democratic Welfare State Retrenchment

GIJS SCHUMACHER

Differences in the intra-party balance of power explain variation in social democratic responses to the economic crisis of the late 1970s. This article evidences this claim by analysing the case of welfare state retrenchment by social democratic parties. Welfare state retrenchment is electorally risky for social democrats and often contrary to their principles. Therefore cases of welfare state retrenchment by social democrats provide an excellent case study of the difficult trade-offs parties have to make between office, policy and vote pay-offs. The article claims that leadership-dominated parties advance office-seeking strategies and are therefore responsive to economic conditions and public opinion. Conversely, activist-dominated parties advance policy-seeking strategies and therefore support traditional social democratic policy platforms or seek more radical solutions. By comparing seven social democratic parties (Denmark, France, Germany, the Netherlands, Spain, Sweden and the UK) between 1980 and 2005, this article explains variation in when social democrats introduced welfare state retrenchment.

Introduction

In the early 1980s the Spanish (PSOE) and French socialists (PS) enacted several welfare state retrenchment measures, steps which broke radically with their rhetoric up to then. Under similar economic conditions the Dutch (PvdA), British (Labour) and Danish (SD) social democrats refused to retrench and continued with or strengthened their radical agendas. What explains this variation in party responses to similar economic conditions? This article examines welfare state retrenchment by social democrats to explore party responses to economic conditions. Given the electoral risk of retrenching popular welfare measures (Armingeon and Giger 2008; Giger and Nelson 2011), and the risk of exacerbating inequalities (Kenworthy

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1999), which violates the core social democratic principle of egalitarianism, it is puzzling that some social democratic governments have retrenched.

Welfare state retrenchment is defined in this paper as the commodification of labour market arrangements, by, for example, deregulating labour markets by reducing contract security to labour market outsiders, reducing the level of unemployment benefits or implementing new rules that make fewer people eligible for these benefits (e.g. Clasen and Clegg, 2007).¹

The root cause of differences in party responses to similar conditions is explained by variation in parties' office-seeking and policy-seeking strategies. To be more precise, the intra-party balance of power between office-motivated leaders and policy-motivated activists explains which strategy a party adopts (Marx and Schumacher forthcoming). Party leaders care about maintaining or extending resources that bring office pay-offs (e.g. parliamentary seats and proximity to potential coalition partners). Hence, they care about economic performance, because a negative evaluation of the economy may motivate voters to punish the government (Duch and Stevenson 2008). To be perceived as effective economic managers, party leaders in government should support measures that are expected to sustain electoral support. By swapping principled policies for pragmatic policies, parties retain an image as effective economic managers. However, such policy shifts may backfire when credible opposition parties² or unions mobilise against these measures. In that case, the risk of losing votes because of opposition mobilisation becomes greater than the risk of losing votes due to poor economic performance.

However, if party leaders face an internal party organisation in which activists hold key veto-player positions, they cannot pursue pragmatic policies because activists will veto measures that go against the party's principles. Hence, if intra-party organisation gives activists leverage over party policy, the party becomes responsive to the preferences of these activists. Therefore, I hypothesise that activist-dominated social democratic parties stick to traditional social democratic dogma or become more radical.

To explain variation in when social democrats choose to enact welfare state retrenchment measures, I analyse the interaction between the intra-party balance of power and the selective responsiveness to environmental incentives in a comparison of seven social democratic parties in the period 1980 to 2005. The analysis shows that parties (PS and PSOE) in which leaders were dominant chose retrenchment measures immediately after the onset of economic hardship. Under similar economic conditions, activist-dominated parties (PvdA, Labour and SD) initially moved further to the left. Over time, however, the agony of prolonged exclusion from office that such parties (PvdA, Labour and SD) experienced and the subsequent failure to implement their preferred policies altered the intra-party balance of power and allowed party leaders to employ office-motivated strategies. Finally, a third class of parties – German (SPD) and Swedish (SAP) social democrats – are in-between cases in terms of the intra-party balance of power and consequently became caught between modernisation and

traditionalism, supporting retrenchment at times, but eventually reverting back to more traditional social democratic politics.

By demonstrating that party responses to economic and political conditions are conditional on the governing party's intra-party balance of power, this article has important implications for the qualitative and quantitative literature on welfare states.

Social Democrats and Welfare State Retrenchment

The role of parties is a contentious issue in studies about welfare state change. One view argues that welfare state change is determined by economic conditions (e.g. Iversen and Cusack 2000; Wilensky 1975). As such, parties have no or a limited role since they perfectly translate voter preferences, which are determined by these economic conditions, into government policy. However, other research indicates that parties do matter because they have unique policy responses to similar economic conditions. Ergo, social democratic parties as so-called agents of the working class pursue the expansion of social benefits and worker protection (Castles 1982; Huber and Stephens 2001; Korpi 1989). Here, varying levels of welfare state generosity are primarily explained by the relative strength of social democrats and other left-wing parties. These studies theorise and (mostly) empirically validate that parties implement their ideological preferences. This stream of research sees policy-seeking motivations for parties pursuing welfare state change.

Today, few researchers hold purely deterministic views of welfare state change. Arguably, the logic of welfare state politics has changed since the late 1970s because of fiscal pressures to maintain a balanced budget or face high inflation and currency speculation (Pierson 1996). Without the possibilities of large-scale budgetary expansion, the left no longer expands the welfare state. Neither the left nor the right will pursue retrenchment, because party leaders believe they will be punished by an electorate that supports the welfare state status quo (Giger 2011). The evidence for this receding partisan effect is mixed. Some quantitative researchers find evidence for a declining role of partisan differences (e.g. Huber and Stephens 2001; Kittel and Obinger 2003), others find persistent partisan differences with left-wing incumbency positively correlated to welfare state generosity (Allan and Scruggs 2004; Amable *et al.* 2006; Korpi 2003).

Other studies argue that, while the agency of parties has not been totally suppressed, it has become more complex. Most contemporary studies theorise that a window of opportunity for welfare state retrenchment opens up when the condition of electoral punishment is absent. In this case, parties can retrench without the fear of electoral defeat. First, voters perceive social democrats as a credible pro-welfare party and trust that what social democrats do to the welfare state must be right, necessary or both (Levy 1999; Ross 2000). Ergo, voters will not blame social democrats for

retrenchment. Second, social democrats retrench in order to sustain acquired privileges for their traditional core constituency, by, for instance, increasing the insider–outsider divide by deregulating temporary forms of employment while maintaining protection for regular workers (Rueda 2007). In this case, only outsiders punish social democrats. Third, public opinion impacts on policies (Burnstein 2003), and it did, arguably, account for an expansion in welfare state spending (Brooks and Manza 2006; but see Kenworthy 2009). If there is a right-wing public opinion shift, perhaps caused by poor economic performance, social democrats can gain voters by shifting with public opinion. This explains why socio-economic problem pressure (e.g. unemployment) may translate into retrenchment (Vis 2009). Fourth, without a left-wing competitor, left-leaning voters have no alternative party to cast a vote for when the social democrats retrench (Kitschelt 2001). Fifth, similarly, a coalition of pro-welfare parties (social and Christian democrats) can share the blame for retrenchment and thereby limit the pro-welfare alternatives for voters. This strategy helps to avoid punishment (Green-Pedersen 2002).

But these are office-seeking reasons that explain when social democrats retrench. That electoral punishment is unlikely does not yet explain why social democrats engage in retrenchment. In the 1980s the UK Labour Party opposed a radical Conservative Party and faced no left-wing competitor. By adopting a moderate policy stance, Labour could easily have won the elections, but instead offered a radical left-wing programme. As will be explained in the next sections, the Labour Party had powerful activists whom prevented it from moving to a position from which it could win elections.

In conclusion, researchers assume that parties are office-motivated or policy-motivated. Assuming one or the other has repercussions for understanding welfare state retrenchment, because office-motivated parties are responsive to different environmental incentives (economy, electoral context) than policy-motivated parties (party activist pressure). To fully understand the agency of parties, this paper operationalises policy motivations and office motivations, by analysing differences in the intra-party balance of power and how these differences affect the strategies parties choose.

Social Democrats and the Intra-party Balance of Power

Parties care about both policies and office (Müller and Strøm 1999). Therefore, the (dis)utility of retrenchment for a party is the effect cutbacks have on the sum of the party's office and policy pay-offs.³ Parties enact retrenchment measures if they believe that the measure will have a positive effect on the party's pay-offs. Not every party values office and policy pay-offs to the same extent. Parties sometimes have to make hard choices between policies that serve office goals and policies that serve ideological goals. The intra-party balance of power determines this choice (Müller and Strøm 1999: 14–16). At one extreme, policy-motivated activists may

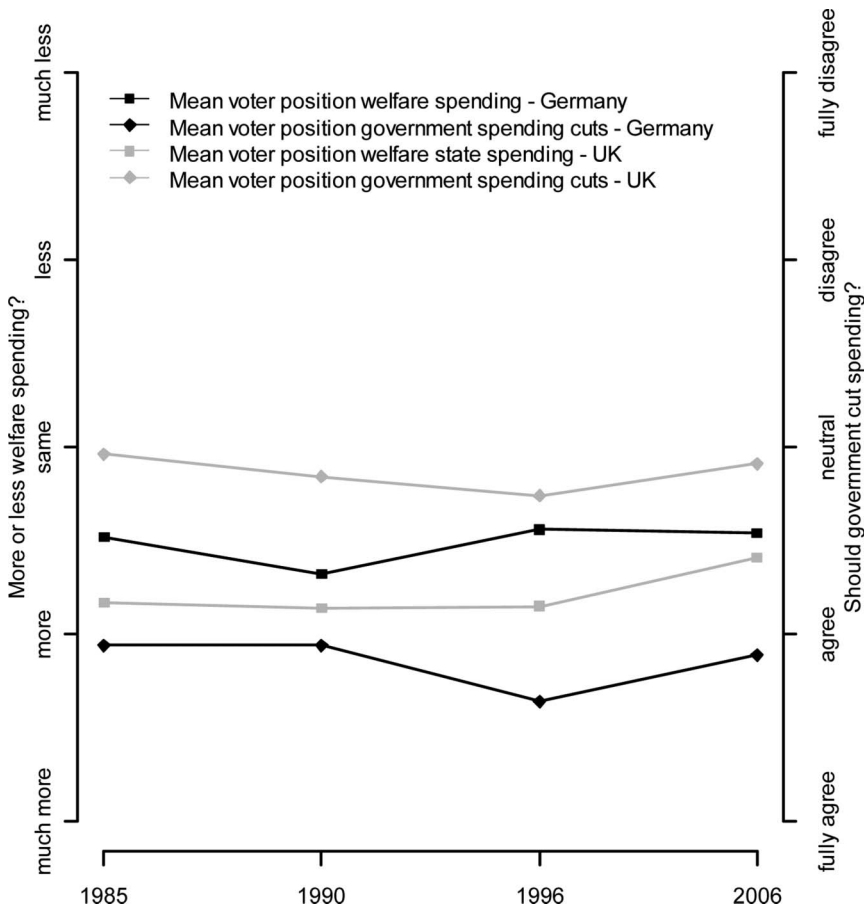
dominate a party because they occupy vital veto player positions within it. As a consequence, these activists determine party policy. Activists invest blood, sweat and tears into the party without immediate reward in terms of income, prestige and rents. Hence, activists are policy-motivated (Müller and Strøm 1999: 15–16). Activists are not necessarily more radical than party leaders, yet they became politically active because of some positive association with the core ideological mission of a party (Iversen 1994). Classical social democratic ideology dictates high levels of generosity and strong employment regulation. Hence, when party activists dictate party policy it stays close to classic social democratic ideology (Hypothesis 1).

Hypothesis 1: If party activists are dominant, social democrats retain social democratic policies.

At the other extreme party, leaders are dominant. The leader has an interest in office, because it brings income, prestige and rents and therefore the party seeks to optimise office pay-offs (Müller and Strøm 1999: 14). To obtain or maintain office pay-offs, a party needs votes and, if necessary, coalition partners. For the case of (office-seeking) social democratic parties, there are two reasons to engage in welfare state retrenchment and one reason to refrain from it.

First, theories of voting behaviour suggest that parties should take the median position on issues that divide people (e.g. more or less welfare) and strongly support issues that everybody agrees on (e.g. a good economy is important) (e.g. Sanders *et al.* 2010). Figure 1 shows the mean voter position on welfare spending and on government spending. Interestingly, the mean voter in both countries consistently supports welfare state expansion and government spending cutbacks over time. However, parties cannot do both at the same time. Yet, in economic downturns, the saliency of the spending cuts issue may triumph over the welfare spending issue because people fear the direct effects of high inflation due to excessive government spending. In this case, the median voter may accept the trade-off between budget cuts and welfare state retrenchment. Economic downturns (i.e. rising inflation or unemployment) or upturns also influence voters' evaluations of the government's economic management skills. Since the economy is a valence issue – an issue which everybody agrees that is important (Stokes 1963) – leaders have an incentive to be positively associated with the issue. Hence, poor economic performance may motivate voters to select a rival party in which they have more faith (Duch and Stevenson 2008). To be perceived as effective economic managers, party leaders opt for the adoption of pragmatic measures that seem to maintain electoral support. By shifting policy towards an arguably successful economic strategy, parties retain an image as effective economic managers. Following issue-proximity voting logic and valence-issue voting logic, severe economic conditions give office-seeking incentives to enact welfare state retrenchment measures.

FIGURE 1
MEAN VOTER POSITIONS ON WELFARE AND SPENDING FOR GERMANY AND
UK (1980–2006)



Source: ISSP, Role of Government I, II, III and IV (1985, 1990, 1996, 2006).

Second, in electoral systems with proportional representation (in this sample, Denmark, Germany, the Netherlands and Sweden) parties need to form multi-party coalitions. To gain access to office, social democratic party leaders are forced to compromise with other, often centrist, parties on various policy proposals. One such policy proposal might be welfare state retrenchment. If a coalition with right-wing or centrist parties is negotiated, social democrats may need either to accept retrenchment or to spend more time in opposition.

Third, these motivations to retrench are counteracted by the risk of alienating left-wing voters. Left-wing voters may decide to vote for a rival party or abstain because the social democratic party's policy preferences

are too far away or because it loses its image as protector of the working class. If opposition parties or unions mobilise public opinion against a social democratic government intending to retrench, this severely damages the prospects of social democrats remaining in office (either by losing votes or coalition partners or both). Schumacher *et al.* (forthcoming) demonstrate that when voters become dissatisfied with social democrats enacting welfare state retrenchment measures, they switch to a party that is equally pro-welfare (left-libertarian parties, Christian democrats). Labour unions are also instrumental in mobilising public opinion against social democrats. However, if unions and opposition parties fail to mobilise public opinion or are not credible, social democrats do not need to fear electoral punishment and subsequent departure from office. Hence, in economically troubled times, party leaders face a choice between losing votes for being perceived as poor economic managers or for implementing unpopular policies. If leaders come to believe that the impact of the economy on their future office pay-offs is greater than the impact of credible opposition mobilisation, then social democratic party leaders enact welfare state retrenchment measures (Hypothesis 2). If there is no economic crisis or credible opposition mobilisation, leaders refrain from enacting these measures.

Hypothesis 2: If party leaders are dominant, the party enacts retrenchment when the risk of losing office pay-offs due to economic voting is greater than the risk of losing office pay-offs due to credible opposition mobilisation.

The balance of power between leaders and activists may shift as a consequence of the failure of certain strategies. Parties change if they fail to achieve their goals (Harmel and Janda 1994). Hence, a policy-motivated party changes if it fails to achieve its policy goals and an office-motivated party changes if it fails to achieve its office goals. This failure empowers different groups with different goals. For example, if party activists set party policy too far away from the median voter, the party risks losing votes and not being invited to join a coalition government. Hence, activists set a radical agenda for policy reasons, but as a consequence the party is unable to enact these policies because it is excluded from power. Continued exclusion from office forces activists to change strategy or it disgraces them altogether. In both cases, a more office-motivated strategy is chosen, either by activists now willing to compromise or by a party leadership that was able to win back power. By employing office-motivated strategies, formerly policy-motivated parties now behave according to Hypothesis 2. This transition is Hypothesis 3.

Hypothesis 3: Policy-motivated parties change into office-motivated parties if they fail to achieve their policy goals.⁴

Research Strategy

To test the hypotheses, I compare seven social democratic parties (Labour, PS, PSOE, PvdA, SAP, SD and SPD) in the period 1980–2005. Because I analyse government policy, the unit of analysis is social democratic government terms. I analyse the whole term to evaluate the sum of expansionary and regressive welfare state measures taken and by doing so get the general picture of social democratic policy choices. The analysis is based on a qualitative comparison of existing data sources and literature. For reasons of space I only use key references for the description of the data and the case studies. Other sources that were consulted as well as coding decisions are listed in a web appendix on the author's website.

Data

The article's dependent variable is the enactment of welfare state policies by social democrats in government. This is defined as changes in the regulation of employment, via job protection or active labour market policies and changes in the level, eligibility criteria and duration of unemployment benefits. Researchers have coded whether retrenchment (lower, shorter or fewer benefits; less protection) has taken place or readjustment or expansion (Clasen 2005; Clasen and Clegg 2007; Green-Pedersen 2002; Mato 2011; Sjöberg 2011; van Gerven 2008).

To measure the (shifts in) intra-party balance of power I combine different party organisation variables from the literature (Bille 2001; Kitschelt 1994; Poguntke 2002) to make a time-variant index. The variables are member/voter (m/v) ratios, formal linkages with labour unions, centralisation of candidate selection and the formal and informal existence of a left-wing faction in the party. The variables are divided into four categories. Summing the party scores on the four variables gives an index of 4 (extreme policy-seeking) to 16 (extreme office-seeking).

The four variables are selected because they measure different aspects of the intra-party balance of power between activists and leaders. First, the member/voter ratio is a measure of membership density, indicating the party's degree of linkage with the membership organisation (Poguntke 2002). The more members a party has proportional to its number of voters the more a party is penetrated by members. Since the proportion of active party members compared to passive party members is rather constant across parties and time (Poguntke 2002), the more members a party has the more activists it has. By using four ordinal categories of the member/voter ratio rather than the rough number of member/voter ratio, I circumvent problems with changes in the member/voter ratio due to changes in a party's electoral performance. Second, union linkage indicates the degree to which unions can control or influence parties. With overlapping

membership and intra-party decision-making power, unions can veto proposals they disagree with. Third, the degree of centralisation in candidate selection determines the degree of independence party leaders have vis-à-vis the party organisation. In centralised parties, party leaders decide on their own re-election, but in decentralised parties, party leaders need support from the rank-and-file (Bille 2001). Fourth, the presence or absence of formal or informal left-wing factions hinders the ability of party leaders to shift to the right (Kitschelt 1994). Such policy shifts can be vetoed by left-wing factions represented in the parliamentary group, party membership organisation or even by the party leadership. The absence of such groups makes the party leadership more flexible.

To analyse whether parties failed to obtain their policy goals I take data on exclusion from government participation from the government party dataset (Woldendorp *et al.* 2000). This variable is labelled as failure. Credible opposition is defined in terms of unions being effective in mobilising opposition against retrenchment measures and the strategic behaviour of pro-welfare opposition parties (i.e. socialist and Christian democratic parties). I use historical descriptions of reform efforts to determine whether such events took place (for sources used in this variable and all others see web appendix on author's website: www.gijsschumacher.nl). This was coded as strong, weak or absent mobilisation. To operationalise changes in the economy, I look at changes in inflation and unemployment using OECD data (2011). Changes in inflation and unemployment are key economic conditions that motivate people to cast an economic vote against the government (Duch and Stevenson 2008; Erikson *et al.* 2002). In the analysis, economic conditions are coded as + (inflation and unemployment going down in comparison to previous year), +/- (inflation or unemployment going down, and the other going up), - (both are going up).

Case Selection

I selected seven social democratic parties (SD, SPD, PS, PvdA, PSOE, SAP and Labour, see Table 1) to cover meaningful variation in the variable of interest, party organisation. Table 2 shows the scores of each party on the intra-party balance of power index in 1980 with the PSOE and PS as the most office-seeking parties.⁵ SPD and SAP are examples of parties in between office-seeking and policy-seeking. SAP is strongly centralised but also has strong union linkages. The SPD is regionally and ideologically fragmented and is therefore characterised by shifting balances of power between groups of activists and groups of leaders. The combination of party organisation characteristics made the PvdA, SD and Labour the parties most geared towards policy-seeking strategies in the 1980s. In conclusion, the sample varies between strong office-seeking, strong policy-seeking and in between cases and should therefore be sufficient to analyse the role of party organisation.

TABLE 1
INDEX OF INTRA-PARTY BALANCE OF POWER (BOP)

Value	1	2	3	4
Member/voter ratio	Very high (> 10%)	High (> 5%)	Low (> 2.5%)	Very low (< 1%)
Union linkage	Very strong (overlapping membership; unions have decision-making power in parties)	Strong (some overlapping members and functions)	Weak (some informal links)	Very weak (no links)
Centralisation in candidate selection	Strongly decentralised (regional, local or national councils decide)	Decentralised (regional, local or national councils have agenda-setting power, but leaders retain influence)	Centralised (regional, local or national councils have some influence)	Strongly centralised (leadership decides)
Leftist factions	very strong (one or more strongly formalised left-wing groups)	strong (some left-wing groups)	Weak (some informal groups, often short-lived)	Very weak (no left-wing groups)

Analysis

Office-motivated Parties

Table 3 compares the PS and PSOE, the parties expected to choose an office-motivated strategy. Before 1981 and 1982 respectively, the PS and PSOE followed a radical opposition strategy, promising a ‘rupture’ with capitalism. When in government the PS initially undertook a radical expansion of government responsibilities. However, Spain and France experienced strong increases in unemployment and inflation in the early 1980s. This led both parties to abandon their initial radicalism. The *volte-face* of the PS came in 1983, rejecting Keynesianism and imposing austerity measures and market-oriented policies (Bell 2003). In terms of welfare policies, the PS reduced eligibility to benefits for workers with short contributory periods (Clasen and Clegg 2007). This U-turn elicited criticism

TABLE 2
SEVEN SOCIAL DEMOCRATIC PARTIES (1980–2010), THE INITIAL INTRA-PARTY
BALANCE OF POWER (1980) ORDERED BY DEGREE OF OFFICE-SEEKING TO
POLICY-SEEKING

Country	Party	M/V ratio	Union linkage	Centralisation	Leftist factions	BoP index
<i>Office-seeking parties</i>						
Spain	PSOE	Very low	Very weak	Centralised	Weak	14
France	PS	Very low	Very weak	Decentralised	Strong	12
<i>In-between cases</i>						
Sweden	SAP	High	Very strong	Centralised	Weak	9
Germany	SDP	High	Weak	Decentralised	Strong	9
<i>Policy-seeking parties</i>						
Netherlands	PvdA	Low	Weak	Strongly decentralised	Very strong	8
Denmark	SD	Very high	Very strong	Decentralised	Weak	7
UK	Labour	Low	Very strong	Strongly decentralised	Very strong	6

BoP = Intra-party balance of power.

TABLE 3
OFFICE-SEEKING SOCIAL DEMOCRATS

Party	Period	Dep. variable	Independent variables			Hyp
		Retrenchment	BoP	Economy	Opposition	
PSOE	82–86	Yes	14	–	Absent	H2
PSOE	86–89	No	15	+	Weak	H2
PSOE	89–93	Yes	15	–	Absent	H2
PSOE	93–96	No	15	+	Absent	H2
PS	81–86	Yes	12	–	Weak	H2
PS	88–93	Yes	12	+/–	Strong	~H2
PS	97–02	No	12	+	Strong	H2

H2: Retrenchment if opposition and economy is weak.
H = confirmation hypothesis, (h) = weak support for hypothesis, ~H = rejection of hypothesis.

both internally and from the Communist Party (PCF). Yet President Mitterrand effectively quelled internal opposition by stressing the need for party unity in government (Bell 2003). In addition, the PCF was much less of a threat, because the PS enjoyed an absolute majority in parliament and the PCF had ceased to be a national competitor of the PS (Kitschelt 1994). Much like the PS, the PSOE flexibilised part-time labour contracts in 1984 (Gutiérrez and Guillén 2000). With weak unions and a disparate Communist Party (PCE), effective mobilisation against these measures failed to materialise and therefore the PSOE leadership did not face electoral reprisals from a credible opposition. Because these office-motivated parties retrench when the economy is underperforming and in the absence of a credible opposition, I find evidence for Hypothesis 2. This is not to say that these parties became neoliberal outfits: they responded pragmatically to environmental incentives. For example, under better economic conditions in 1988, the PSOE extended the duration of unemployment benefits and unemployment assistance (Mato 2011).

Yet in 1992 and 1993 the economic tide changed for the worse and increasing pressures to live up to the newly defined EMU criteria motivated the PSOE and PS to cut. The PSOE decreased the duration and level of unemployment benefits and implemented stricter eligibility criteria (Mato 2011). The PS implemented similar, less radical, measures in 1992 and 1993 (Clasen and Clegg 2007). The weak Spanish unions and United Left party (IU) were unable to muster support against the measures and therefore the PSOE did not fear electoral reprisals (Gutiérrez and Guillén 2000). The PS was bereft of the majority it had between 1981 and 1986. Facing criticism from the left, the PS cooperated with the centrist UDF to push through the measures. Yet the PS probably miscalculated because it lost a staggering 217 seats (out of 260) at the 1993 elections. This provides weak support for Hypothesis 2.

In two later periods the PS (1997–2001) and the PSOE (1993–1996) did not push for significant cuts in the welfare state. The main reason is that sound economic performance reduced the risk of economic voting against the government. As such, there was no rationale for retrenchment.

Office-motivated parties are responsive to the economy and public opinion, because they anticipate future electoral reprisals via the economic vote and update their position before ending up in opposition. Yet when the economy is healthy, retrenchment is off the table. The cases of the PSOE and the PS largely verify this hypothesis (H2).

Policy-motivated Parties

Labour, PvdA and SD are expected to employ policy-seeking strategies (see Table 1). All three countries experienced high unemployment, high inflation and huge budget deficits in the early 1980s. As predicted by Hypothesis 1, these policy-seeking social democrats came up with a radical

TABLE 4
INITIALLY (1980S) POLICY-SEEKING SOCIAL DEMOCRATS

Party	Period	Dep. Variable	Independent variables				Hyp
		Retrenchment	BoP	Economy	Opposition	Failure?	
PvdA	81–82	No	8	—	Weak	No	H1
PvdA	89–94	Yes	10	+/-	Weak	Yes	H2
PvdA	94–98	Yes	13	+	Weak	No	~H2
PvdA	98–02	No	13	+	Weak	No	H2
SD	79–81	No	8	—	Strong	No	H1
SD	81–84	No	7	+	Strong	No	H1
SD	93–94	Yes	9	—	Weak	Yes	H2/H3
SD	94–98	Yes	10	+	Weak	No	~H2
SD	98–01	Yes	11.5	+/-	Weak	No	H2
Labour	76–79	No	7	—	Strong	No	H1
Labour	97–01	Yes	11	+	Weak	Yes	~H2/H3
Labour	01–05	No	11	+	Weak	No	H2

H1: No retrenchment if intra-party balance of power (BoP) is low.
H2: Retrenchment if economy and opposition is weak.
H3: Increase intra-party balance of power (BoP) due to failure to achieve policy goals (Failure?).
H = confirmation hypothesis, (h) = weak support for hypothesis, ~H = rejection of hypothesis.

response to the crisis. Under pressure from young, ideologically motivated activists in the early 1970s all three parties had already shifted to the left.⁶ The economic troubles of the late 1970s and early 1980s placed welfare issues even higher up the agenda. In the 1981 elections, the PvdA increased its emphasis on the decommodification of welfare and proposed a radical regulation of minimum and maximum income (Marx and Schumacher forthcoming). The SD issued more statements about welfare state expansion, especially when the right-wing Schlüter government attempted to reform the welfare state (Nygard 2006). At the start of the 1980s, both parties were briefly in government but did not enact welfare cuts. The Labour Party shifted to a radical socialist programme in the early 1980s, exemplified by their far-left *The New Hope for Britain* 1983 election manifesto (Kitschelt 1994).

The PvdA and the SD did win votes in elections in the early 1980s, but centre and centre-right parties refused to cooperate and therefore they experienced long periods of exclusion from office. Labour experienced dramatic defeats by the Conservatives from 1979 to 1992.

As Table 4 demonstrates, in the late 1980s and early 1990s, exclusion from office brought about party organisational changes that shifted the intra-party balance of power in all three cases. By shifting decision-making on candidate selection, leadership selection and manifesto formulation from local delegates to ordinary members in a series of reforms between 1987 and 1993, the Labour Party leadership centralised power, eradicated militant tendencies and paved the way for ideological change (Seyd 1999). Similarly, the PvdA (1991) and the SD (1992) reduced activist influence by introducing

election mechanisms in which the power of activists was mitigated (Marx and Schumacher forthcoming). The system of dual union SD membership was abolished in the late 1980s and the representation of unions in SD executive organs ended in 1995 (Allern *et al.* 2007). In sum, activists had fewer means with which to obstruct party leaders.

After changes in the intra-party balance of power, all three parties changed their ideology and policies. In the 1997 elections, Labour's Third Way offered active labour market policies, reduction of passive welfare measures and flexibilisation of labour contracts (Green-Pedersen *et al.* 2001). The SD and PvdA were Third Way *avant la lettre*. In the 1994 elections, the SD issued fewer statements about welfare state expansion and more about market orientation (Nygard 2006). In the 1994 elections, the PvdA shifted dramatically to the right (Schumacher 2012). These ideological shifts secured acceptance by the centre and all three parties came back to government. In policy terms, Labour (1999), SD (1993, 1995, 1998) and the PvdA (1991, 1992, 1994) took measures that reduced the duration and number of people eligible for unemployment benefits, made receipt conditional on participation in activation programmes and in the latter two cases, relaxed labour market regulations for part-timers (Green-Pedersen 2002; van Gerven 2008).

In conclusion, the three policy-motivated parties did not moderate their policies as a response to poor economic conditions (H1), but the absence of government participation that the choice of radical policies brought ultimately triggered party change (H3). Although party change enabled leaders to dictate the party's agenda, immediate economic conditions were not in all cases responsible for the party's adoption of welfare state retrenchment. Halfway through the 1990s the Danish, Dutch and British economies were not doing badly compared to the 1980s. Yet these parties enacted retrenchment (~H2). One alternative explanation is that it took longer for parties to change. Being framed as the 'Loony Left' in the 1980s, these social democratic parties had to prove their capabilities in macroeconomic management. However, party change is a slow process, especially when activists are strongly embedded in the organisation. Possibly, many of the policies these parties implemented were conceived in a time of economic hardship, but were only adopted as the new dogma after the slow process of breaking intra-party opposition.

In Between Policy Motivations and Office Motivations

SAP and SPD are cases in between policy motivations and office motivations. In 1982, the SAP experienced its first period (1976–1982) out of office since 1936 and an internal SAP report blamed this on the fact that voters associated the rigid bureaucracy of the welfare state with the SAP (Klitgaard 2007). Consequently, the SAP's 1982 election manifesto saw a sharp decline in statements about welfare state expansion and an increase in statements about welfare state limitation (Nygard 2006). This was branded as a Swedish 'Third Way' between Thatcherite neoliberalism and French

expansionism (Pontusson 1987) and was visible in some new policy measures such as the liberalisation of financial markets. But the party did not change its posture vis-à-vis the welfare state (Pontusson 1992). A new welfare reform package bringing more freedom of choice in the welfare state was proposed, yet it was never introduced (Klitgaard 2007). The SAP remained on a traditional social democratic path and the comparatively buoyant economy of the 1980s did not motivate the SAP to take risky measures such as welfare state retrenchment. When inflation was skyrocketing between 1989 and 1991, however, the SAP did introduce austerity measures and increasingly sought policy inspiration from right-wing parties (Pontusson 1992). But the dramatic electoral defeat of 1991 ended retrenchment experiments.

After being excluded from office between 1991 and 1994, the SAP undertook a change of strategy in the 1994 elections. In its election manifesto there were far fewer statements about welfare state expansion and many more about the market economy (Nygard 2006). Once it returned to government in 1994, the SAP cut back on social policies in order to decrease the budget deficit. Between 1994 and 1997, it tightened eligibility criteria and reduced benefit levels (Anderson 2001). However, the SAP reversed the benefit cut and shelved plans for a time limit on benefits (Anderson 2001), because it came into conflict with the Swedish labour union (LO), which had relatively strong links with the SAP (Allern *et al.* 2007). Also, by 1998 the budget deficit had disappeared and SAP no longer pushed for welfare state reform (Sjöberg 2011). Hence, the SAP discontinued retrenchment plans because of a considerable risk of losing votes due to opposition mobilisation (H2). Nor did the SAP's success (it remained in office until 2006) incentivise the party to change. Therefore, the path of the SAP gives weak evidence for both Hypothesis 1 and Hypothesis 2 (see Table 5). This is because the union is both connected to SAP and a strong player externally. Hence, it can mobilise both party activists and public opinion.

The SPD was removed from office in 1982 and was unable to stage a come-back until 1998. Throughout this period, modernisers (welfare reform) and traditionalists (no welfare reform) debated the party's course. With a strong pro-welfare government party (CDU) the SPD had little to gain electorally from shifting to the right; consequently, the interests of the leaders and the activists converged on maintaining a traditional social democratic course.

In contrast to Hypothesis 3, the SPD's long period in the dark did not radically change the party (see Table 5). Instead, it experienced an almost perpetually shifting leadership (Meyer 1999). In the 1998 elections, the dual leadership of party chairman Oskar Lafontaine (traditionalist) and chancellor-candidate Gerhard Schröder (modernist) appealed to contradictory political demands and was electorally successful (Picot 2009).

The initial approach to the welfare state under Schröder reflected the demands of the traditional unionist wing of the SPD. Yet the eventual

TABLE 5
PATH OF SOCIAL DEMOCRATS BETWEEN OFFICE-SEEKING AND
POLICY-SEEKING

Party	Period	Dep. Variable	Independent variables			Failure?	Hyp
		Retrenchment	BoP	Economy	Opposition		
SAP	82–85	No	9	+	Strong	No	(h1/h2)
SAP	85–88	No	9	+	Strong	No	(h1/h2)
SAP	88–91	No	10	—	Strong	No	(h1/h2)
SAP	94–98	Yes	10	—	Strong	No	(h2)
SAP	98–02	No	10	+	Strong	No	(h1/h2)
SAP	02–06	No	10	+	Strong	No	(h1/h2)
SDP	80–83	No	9	—	Strong	No	(h1/h2)
SDP	98–02	Yes	10	+/-	Weak	Yes	(h2/h3)
SDP	02–05	Yes	11	—	Weak	No	H2

H1: No retrenchment if intra-party balance of power (BoP) is low.

H2: Retrenchment if economy and opposition is weak.

H3: Increase intra-party balance of power (BoP) due to failure to achieve policy goals (Failure?).

H = confirmation hypothesis, (h) = weak support for hypothesis, ~H = rejection of hypothesis.

demise of Lafontaine strengthened the modernist wing at the expense of left-wing factions within the SPD. With an economic downturn in 2001, Schröder gave the green light for the infamous Hartz-IV reforms, which decreased the duration of unemployment benefits, made fewer people eligible for these benefits and attached activation conditions to them (Clasen 2005). Because the pro-welfare party CDU agreed with the reforms, Schröder believed he had effectively muffled any credible opposition.

But the strategy backfired after the reforms were enacted. SPD traditionalists and the unions felt cheated. In response, the far left 'Die Linke' emerged, promising to revoke the 'neoliberal' Hartz-IV reforms, and stealing away many SPD voters in the 2005 elections, which contributed to the downfall of the Schröder II cabinet. The success of 'Die Linke' was an immediate feedback effect of the Hartz-IV reforms.

In sum, as in between office-motivated and policy-motivated parties, the SAP and SPD experienced drawn-out debates in the 1980s without a clear conclusion. In both cases, a small window of opportunity for retrenchment opened up, but was quickly closed by the mobilisation of a credible opposition in the shape of rival parties or unions. As such, the SPD and SAP remain much more committed to a more traditional social democratic programme than all other parties in the sample.

Conclusion

The analysis of seven social democratic parties in the period 1980–2005 demonstrates that party responsiveness depends on the intra-party balance of power. Parties in which activists were dominant (SD, Labour and PvdA)

initially responded to the economic crisis in the early 1980s with a radical agenda (H1). This is in contrast with parties in which party leaders were dominant (PS and PSOE). These parties were quick to adopt pragmatic, centrist policies including welfare state retrenchment and labour market flexibilisation. This strategy secured their electoral profile in the short term (H2). Parties with a radical response were not able to replicate that success. They were excluded from office for most of the 1980s and early 1990s. As a consequence of party failure, leaders reduced the power of party activists, which enabled a more pragmatic course of action and a return to power. In power, these social democrats enacted retrenchment measures as well (H3).

This article contributes to the welfare state literature by showing the variation in party responses to similar conditions. The quantitative welfare state literature usually assumes that welfare state change is explained by economic and political conditions in the year prior to the change (e.g. Allan and Scruggs 2004; Huber and Stephens 2001; Iversen and Cusack 2000; Swank 2005). This paper demonstrates that the hypothesised positive effect of an increase in, for example, unemployment or of a left-wing incumbent is conditional upon the intra-party balance of power of the governing parties. The controversy in this literature over whether parties matter is a question of when parties matter (Schmidt 1996). This paper demonstrates that it is not partisanship or the economy that explain welfare state change. Both are important and their impact is dependent on the intra-party balance of power. The qualitative welfare state literature has engaged with policy-seeking or office-seeking logics (Green-Pedersen 2002; Kitschelt 2001; Zohlnhöfer 2003), but has so far concentrated on the electoral calculations of party leaders, thereby neglecting intra-party dynamics. The examples of the Dutch, British and Danish social democratic parties in the 1980s demonstrate that party leaders may have been concerned with electoral performance, but were forced to pursue a radical and self-defeating agenda. To stay party leader one must first secure standing within the party before entry to the office of prime minister or its equivalent can be achieved. Variation in the difficulties faced by leaders in attaining this standing explains which strategies parties adopt and the subsequent policy choices they make.

Notes

1. Welfare state policies include more programmes, such as pensions and sickness programmes. Old age and health are life course risks, whereas unemployment or poverty are class risks. Reducing life course risks is more risky because voters are affected more by life course risks than by class risks. Social democrats differ from Christian democrats in their support for measures reducing class risks. Because reducing class risks is a typical social democratic set of policies, this paper concentrates on the retrenchment of such measures.
2. A credible opposition has catered to working-class voters in the past, by supporting the welfare state and labour regulation measures. This also includes socialist and Christian democratic parties.

3. Votes are only instrumental in obtaining office or implementing policy. Hence, I consider vote-seeking behaviour as part of office-seeking.
4. The hypothesis that office-motivated parties change into policy-motivated parties is left out because it is not empirically observed in this research project.
5. The factionalism that characterises the PS also enabled party leaders like Mitterrand to manipulate the party by forming flexible intra-party coalitions (Kitschelt 1994).
6. This influenced the decision in all three parties to introduce participatory mechanisms, shifting power from leaders to activists.

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